

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

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Notice of Market-Dominant Price Adjustment

Docket No. R2012-6

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**REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE**

(March 19, 2012)

In Order No. 1252, the Postal Regulatory Commission solicited comments on the United States Postal Service's proposal to provide commercial mailers with a temporary two-month price incentive for certain First-Class Mail® and Standard Mail® products, which include a qualifying mobile barcode ("Promotion"). On March 12, 2012, the Public Representative ("PR") and Valpak submitted comments. The Postal Service hereby provides its reply comments, addressing the main arguments set forth by those commenters.

**I. Pending Litigation**

At the outset, the Postal Service would like to point out that the arguments advanced by the PR and Valpak are closely related to Commission's directive in the FY2010 Annual Compliance Determination Report ("ACD Report"), which ordered the Postal Service to increase the attributable cost coverage of Standard Mail Flats.<sup>1</sup> Indeed, Valpak spends the first few paragraphs of its comments discussing the link between this docket and the commission's order in the ACD Report.

As the Commission is well aware, that directive is currently being reviewed by the U.S. Court of Appeals for the District of Columbia, with oral argument having occurred in

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<sup>1</sup> Docket No. ACR2010, FY 2010 Annual Compliance Determination Report, at 106, March 29, 2011

February, 2012.<sup>2</sup> Of particular relevance to this docket, the court will likely decide the appropriate application and interpretation of 39 U.S.C. § 3622(c)(2). Until this central issue is resolved, the Commission's directive to the Postal Service will remain in question.

## **II. Proposal to Remove Standard Mail Flats from the Promotion**

The stated purpose of the Promotion is to increase the long-term value of direct mail by encouraging mailers to integrate more advanced mobile technologies into their mailing campaigns.<sup>3</sup> The Postal Service believes that this short-term investment in the value of direct mail (which includes Standard Mail Flats) could contribute to increased product volumes in the future.<sup>4</sup> Nevertheless, the PR and Valpak request that the Commission remove Standard Mail Flats from the Promotion, because the product does not currently cover its attributable costs.<sup>5</sup> Unfortunately, the commenters fail to appreciate the strategic value of initiatives (such as this Promotion) that improve the long-term value of a product to its customers. Such efforts can help to preserve and improve product volumes in the future, and are essential to the Postal Service's ongoing efforts to improve Standard Mail Flats' attributable cost coverage.

Valpak insists that the Postal Service's goal is to increase Standard Mail Flats' "total revenues, not cost coverage."<sup>6</sup> Valpak uses this line of attack to criticize the Postal Service for not acting like a business and states that "Nothing about the Postal Service's discount proposal contributes to cost control or in any way helps solve the

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<sup>2</sup> *U.S. Postal Service v. Postal Regulatory Commission*, No. 11-1117 (D.C. Cir.).

<sup>3</sup> Docket No. R2012-6, Notice of Market Dominant Price Adjustment, Pg. 4, February 21, 2012.

<sup>4</sup> Docket No. R2012-6, USPS Response to Chairman's Information Request No.1, Pg. 6, March 8, 2012.

<sup>5</sup> Docket No. R2012-6, Public Representative Comments, Pg. 5, March 12, 2012; Docket No. R2012-6, Comments of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. ("Valpak Comments"), Pg. 6, March 12, 2012.

<sup>6</sup> *Id.* at 4.

cost coverage problem.”<sup>7</sup> However, most rationale businesses understand that efforts to improve the profitability of a product must go beyond simply increasing prices and cutting costs. Initiatives like this Promotion, which improve the long-term value of the product, are essential to encouraging mailers to continue using the product in the long-term. Businesses that focus solely on price increases and cost cutting can unintentionally cause the product to spiral out of control. Each price increase can drive away customers, which necessitates additional price increases as volumes fall. Similarly, each cost control effort can potentially impact customers in negative ways, which can further suppress demand. To be sure, the Postal Service has recently implemented a 2.209 percent price increase for Standard Mail Flats,<sup>8</sup> and continues to pursue operational changes, such as Network Optimization, which could substantially reduce operating expenditures.

However, given the unique and potent market forces currently facing cataloguers (the primary users of Standard Mail Flats), the Postal Service must be careful not to drive these customers out of the mail. In fact, these unique market forces make it extremely important for the Postal Service to ensure that Standard Mail Flats’ value to cataloguers remains robust. Providing incentives to commercial mailers to accelerate their integration of advance mobile technology into their mailing campaigns is one small step toward improving the long-term value of Standard Mail Flats. Thus, a balanced approach of moderate price increases, cost savings, and efforts to improve the long-term value of the product would best serve the interests of the Postal Service, flats mailers, and the postal community.

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<sup>7</sup> *Id.* at 5.

<sup>8</sup> Docket No. R2012-3, Order No. 987, PG. 19, November 22, 2011.

In addition, the Postal Service would like to emphasize the short duration of the Promotion and the minimal impact that it will have on Standard Mail Flats' cost coverage. Indeed, Valpak noted in its comments that the discounts given to Standard Mail Flats during the 2011 Promotion amounted to less than 1 percent of the overall loss for that product in the previous year.<sup>9</sup> Given that this year's Promotion has a reduced discount; it is likely that the impact will be even smaller. When weighed against the potential benefits of improving the long-term value of direct mail, and stabilizing/increasing Standard Mail Flats volumes in the future, the Postal Service believes that the Commission should approve the Promotion without removing Standard Mail Flats.

### **III. Mailer Participation**

In their comments, both the PR and Valpak assert that the removal of Standard Mail Flats from the Promotion will not complicate mailer participation in the Promotion.<sup>10</sup> The PR goes on to claim that any "complication the Postal Service articulates is a direct result of the design of the 2012 Promotion. The Postal Service could have designed the Promotion so that customers can include both Flats and Carrier Route Flats pieces on the same postage statement."<sup>11</sup> In this regard, both the PR and Valpak misunderstand the nature of the complications that would be created for mailers if Standard Mail Flats were removed from the Promotion.

As the Postal Service clearly stated in its response to question 2 of CHIR1 "It is no longer true that the design of the postage statement means that removing Standard

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<sup>9</sup> Docket No. R20212-6, Valpak Comments, Pgs. 5-6, March 12, 2012.

<sup>10</sup> Docket No. R20212-6, Public Representative Comments, Pg. 3, March 12, 2012; Docket No. R20212-6, Valpak Comments, Pg. 5, March 12, 2012.

<sup>11</sup> Docket No. R20212-6, Public Representative Comments, Pgs. 3-4, March 12, 2012.

Mail Flats from the Promotion would also effectively eliminate Carrier Route Flats from the Promotion.”<sup>12</sup> Instead, the source of such complications is how the mailers design their campaigns. Since many cataloguers and other flats mailers do not know (often until the very last minute) what the precise mix of Carrier Route and Standard Mail Flats will be for a particular mailing campaign, these mailers will be unable to determine the value of their Postage Discount during the campaign design phase. As the American Catalogue Mailers Association points out, the cost for some cataloguers “to create a qualifying mobile website is many times greater than the incentive can yield in postage saved. Reducing a proportion of the catalogs that qualify will degrade the economics further and reduce the number of companies that participate.”<sup>13</sup>

Although the Promotion includes Standard Mail Flats, this initiative must be evaluated as a whole rather than in terms of its constituent parts. Excluding Standard Mail Flats from Promotion would fundamentally change the dynamics of the Promotion for a large portion of mailers and potentially discourage their participation. For these reasons, the Postal Service encourages the Commission to approve the Promotion without removing Standard Mail Flats.

#### **IV. Conclusion**

The Postal Service appreciates the opportunity to discuss the major issues raised by the PR and Valpak in their comments.

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<sup>12</sup> Docket No. R2012-6, USPS Response to Chairman's Information Request No. 1, Pg 2, March 8, 2012.

<sup>13</sup> Docket No. R2012-6, Comments of the American Catalogue Mailers Association, Pg. 2, March 12, 2012.

Respectfully submitted,

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